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ABSTRACT

This series of articles discusses categorical grants, defined as financial assistance by a higher level of government to a lower level for educational services of a specific type or for a particular group of students. In the first article, criticism of such programs is discussed, as well as alternative approaches to better meet the goals of categorical programs. Another article investigates what categorical aid means to teacher unions, with the observation that although such programs create teacher jobs, they undermine seniority and tenure provisions because they cause the hiring of only specially qualified teachers. A third article asks if categorical grants benefit target groups or merely meet the needs of the professionals implementing them. In the fourth article, the author investigates the meaning of "adequate" funding for education and of equitable access to education. A final longer article reexamines the federal role in financing education, looking at its history, positive and negative aspects, and proposals for the future. The author discusses block grants as an alternative to categorical grants, acknowledging both their advantages in reducing costs and federal regulations and in decentralizing decision-making and their disadvantages in influencing districts to merely substitute them for local sources of school support while curtailing programs for the handicapped, the poor, and minorities. (Author/JM)

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FEDERAL CATEGORICAL AID
Emerging Patterns of Support

What are categorical grants? They are financial assistance by a higher level of government to a lower level for educational services of a specific type or for a particular group of students. The most prominent categorical program is Title I of the Elementary and Secondary Education Act of 1965, which provides funds for compensatory education directed to students from low-income backgrounds. Other major programs address bilingual students, vocational education, and the handicapped. Many states also have similar programs for local school districts.

Categorical grants contrast with general aid to education in that they restrict funding to a particular purpose, while general aid can be used for any educational function. Since the enactment of Title I, categorical programs in elementary and secondary education have expanded so much that they now represent the principal form of federal assistance. Between 1964 and 1980 federal expenditures on elementary and secondary education increased from about $670 million to $7 billion. Of the 1980 expenditure about half was accounted for by Title I.

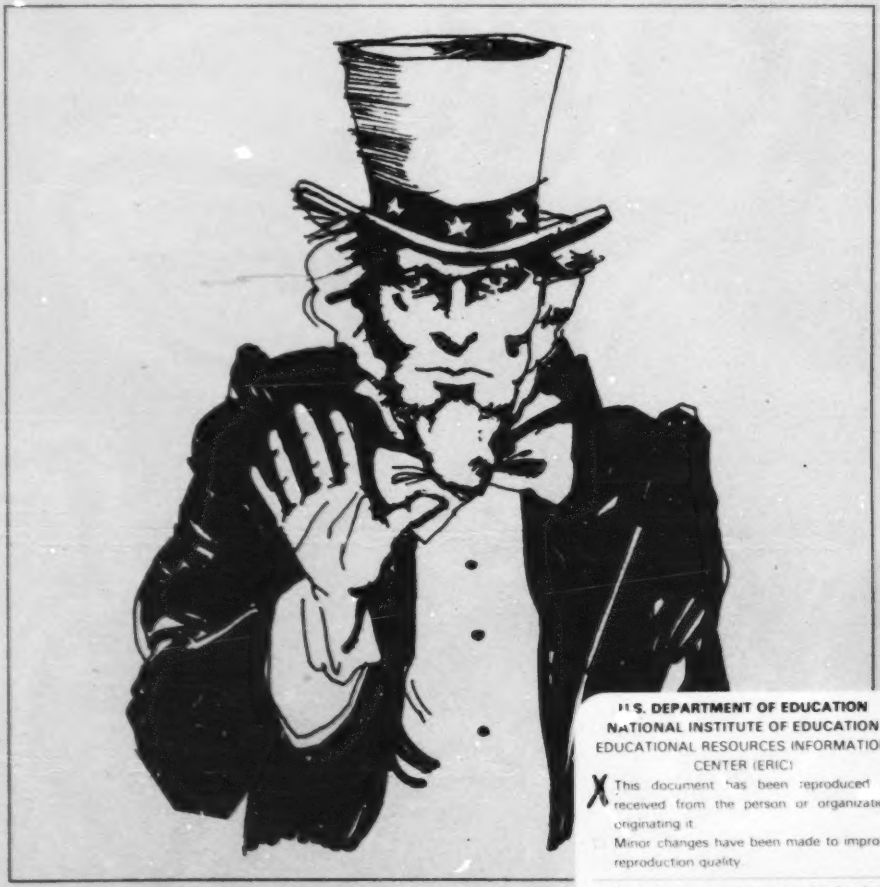
Such programs attempt to provide greater equity in funding and distributing educational services for the groups most in need of additional or specialized resources. These groups include students from poverty and bilingual backgrounds and the handicapped, as well as those in newly desegregated settings and youth preparing for specific vocations.

What most categorical programs have in common is that although the services are provided by state and local education agencies, they are funded by the federal government. The premise underlying this arrangement is that education is a state and local function, but the national interest in education is not always met at these levels. State and local educational decision makers tend to place a lower priority on equity than the federal government does, partly because of the high additional costs of the commitment. The federal government has attempted to stimulate the equitable provision of services through its categorical grant programs.

Despite the noble intent, such programs have come under heavy criticism in recent years. It has been asserted that they have not improved educational outcomes for the students they serve. A second charge is that they substitute federal funds for state and local funding that would have been used anyway for the services. Finally, categorical programs have led to complex and extensive regulations, procedures, and guidelines with high compliance costs for government at all levels.

Generic issues

Studies have addressed specific programs such as Title I, but there has been no systematic inquiry into the issues that affect all programs. In general, these issues arise from conflicts between the politics of categorical grant legislation and appropria-



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tions on the one hand, and the need for accountability at the state and local level on the other.

Two political requirements must be met to assure the passage of categorical legislation. First, the legislation must respond to the concerns of interest groups that support it, particularly on such matters as student eligibility, definitions of programs, personnel requirements, and the distribution and level of funding. Second, legislation must provide adequate funds to key congressional districts and states to attract the support of their elected representatives.

These requirements have meant that categorical legislation is characterized by provisions and procedures ensuring its "intent." Distribution formulas specify in advance the funding levels to be received by different political entities. Funding is guaranteed by the legislation — rather than being dependent on educational performance or other criteria of merit — and accountability is vested in guidelines, regulations, and procedures for the grants.

Although the state and local education agencies receive block grants according to a formula for each categorical program, they must use them in accordance with the law and administrative regulations. Typically there are at least three types of accountability for each program:

- Reports include such things as mandated applications for funds, detailed plans for their utilization, expenditure reports, and other descriptive documents on students and personnel.
- Evaluations on the impact of programs and spending are required to assure that progress is being made toward the appropriate goals.
- Advisory groups of parents and citizens are used to monitor local programs.

These accountability devices require a substantial bureaucracy, and they are duplicated among all of the programs. This means there is little coordination among programs. There is a wasteful multiplication of effort. Program regulations may conflict with each other, such as when the concentration of students needed for efficient bilingual programs stands in opposition to grants that support the dilution of such student concentrations for the purpose of achieving desegregation.

In other cases, diverse reporting dates and multiple documents require different reporting terminology. Proliferating definitions of student groups and expenditure categories transform data analysis into endless complexities and paperwork. In other cases yet, the federal government provides only a fraction of the cost of services mandated in categorical legislation. For example, only about 12 percent of the cost of educating the handicapped in compliance with federal legislation is covered by federal funds.

Some key questions

It is imperative that educational policy makers attempt to understand the issues more fully and consider alternative approaches that may help to meet the goals of categorical programs. Some of the key questions that need to be addressed — the research agenda in this area for IFG in the coming year — focus on economics, politics, and the administration and implementation of categorical grants.

Economic Aspects

- What are the assumptions that led to particular types of intergovernmental grants in education under a system of fiscal federalism?
- What constitutes adequacy and equity in the provision of categorical support for education?
- What is the feasibility of comprehensive funding formulas that will account for the actual costs of undertaking particular types of educational programs according to categorical need?
- What policy insights can be gleaned from the theory of grants in education and the empirical literature on effects of such grants?
- Are there any new approaches to the organization of such services?
- What are the merits and shortcomings of the funding formula approach to categorical aid?
- What are the problems and prospects for integrating categorical grants into state education finance systems?

Political Aspects

- How does political behavior affect the support, shape, and functioning of categorical programs?
- In particular, how does collective bargaining influence the formulation and implementation of categorical programs?
- What impact do minority interest groups have on various categorical educational programs at both state and local levels?
- Are there conflicts between categorical programs and other governmental mandates — such as between bilingual and desegregation programs at the local level?
- In general, what is the effect of categorical grants on local school district politics and organization?
- Is there a possibility that categorical grants may create new political interest groups at the local level, while altering their strengths and forging new coalitions?
- Why have categorical grants burgeoned in federal policy and what are their consequences for program performance?
- Have categorical grants altered the outcomes of recent state attempts to equalize school financing?

WHO'S WHO IN RESEARCH?

IFG's *Directory of Researchers in Educational Finance and Governance* is now available. Compiled by Miles T. Bryant on the IFG staff, the directory is national in scope and describes some 200 recently completed or current research projects in educational finance and governance. Designed to facilitate communication between researchers and policy makers, the directory is free of charge and can be obtained by writing to IFG.

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Administration and Implementation

- Why have such prodigious administrative and implementation burdens been created by the current form of categorical grants?
- Can the major federal categorical programs in education be analyzed generically according to common criteria such as funding distribution, targeting provisions, strings on the use of funds, accountability mechanisms, role and responsibilities of local agencies, process and procedural requirements, monitoring, evaluation, and so on?
- Can such a comparative analysis help to explain the origins and rationales for the differences between programs, and to identify possible alternatives to achieve similar objectives?
- Finally, what are the costs of monitoring and enforcing categorical grants in education, and what implications does this have for administration of grants? ■

WHAT DOES IT MEAN FOR TEACHER UNIONS?

Categorical aid is a mixed blessing for teacher unions. On the one hand, at a time when demographic changes and fiscal crises have curtailed teaching jobs and weakened the union's local bargaining position, one of the few sources of financial growth has been federal and state categorical aid. On the other hand, categorical programs have further constrained the limited bargaining options of local union leaders. By demanding more personnel qualified to satisfy legal mandates to serve student populations with special needs, such programs often undermine seniority and tenure provisions recently secured by unions through collective bargaining. Consequently, the interplay of categorical aid has serious implications for the implementation of federal and state policy at the local level. It is in this context that the politics and economics of categorical aid, as viewed by teachers and teacher unions, come together.

Equity in the classroom has been the dominant concern of federal and state categorical programs. Bilingual and special education legislation, for example, illustrate the policy goal of redistributing funds to educationally disadvantaged students. In addition, the federal government and certain state governments have promoted equity in the workplace by altering the racial and ethnic composition of the teaching profession. The Emergency School Aid Act, to cite one instance, requires as a condition for funding that school facilities be racially balanced, as do many school desegregation and affirmative action decisions.

Increasing specialization of teachers

This concern for equity has fueled the expansion of educational subspecialties to meet the various needs of disadvantaged children. Some categorical programs have introduced special certification and training mechanisms, stipulating that new teachers with these credentials must be hired if the district is to quality for funding. But the supply of teachers with such credentials has not kept pace with burgeoning demand. For example, the shortfall of qualified bilingual and English-as-a-Second Language teachers across the nation is estimated to be between 75,000 and 125,000. In California alone no fewer than 5,000 teachers in bilingual education classes were employed under waiver during the 1979-80 school year.

Ethnic identity and professional specialization may overlap when bilingual proficiency is the goal, since Hispanics and other language minorities have an edge in this expanding sector of the teacher labor market. While considerable imbalances in the ethnic and racial composition of the teacher force remain, categorical programs have helped to correct these imbalances. Hispanic teachers in California increased at a rate twice that of Hispanic students (96 percent versus 45 percent) from 1967 to 1977, a period marked by proliferating categorical mandates to create programs for Hispanic students. As shown in the table on this page, the ratio of Hispanic teachers to Hispanic students narrowed during the period.

CHANGES IN THE RATIO OF TEACHERS TO PUPILS BY RACIAL AND ETHNIC GROUP IN CALIFORNIA: 1967 to 1977

Ratio of Teachers to Pupils	1967	1977
White Teachers to White Pupils	1 to 20	1 to 19
Hispanic Teachers to Hispanic Pupils	1 to 147	1 to 108
Black Teachers to Black Pupils	1 to 48	1 to 45
All Minority Teachers to Minority Pupils	1 to 69	1 to 64
All Teachers to All Pupils	1 to 25	1 to 25

Source: California State Department of Education, "Racial and Ethnic Distribution of Students and Staff in California Public Schools, Fall 1977," mimeographed, Table 15.

Similar gains were not recorded for Black teachers. Their numbers in the teacher labor market barely kept pace with the growth in the number of Black students. Recent survey data on California public school teachers suggest that Blacks, many of whom entered the teaching profession only during the last decade, are particularly vulnerable to teacher lay-offs based on seniority. It appears that the labor market over the last decade has shifted new jobs not only from White to minority teachers, but also from Blacks to Hispanics.

The paraprofessional sector

In addition to their impact on certified teachers, categorical programs have increased the number and scope of paraprofessionals, especially instructional aides. For example, according to data released by the California State Department of Education, the number of paraprofessional personnel in California's public schools increased by nearly 250 percent from 1967 to 1977. During the same period, certified teachers declined by 5 percent.

Rates of growth and decline among paraprofessionals and teachers were not shared equally among all ethnic and racial groups. In 1967 equal numbers of Blacks and Hispanics were instructional aids in California, but by 1977 the ratio was two Blacks for every five Hispanic paraprofessionals. Moreover, by 1977 there were more Hispanic paraprofessionals than Hispanic certified teachers in the labor force. The same could not be said for Blacks, whose rate of growth in the paraprofessional sector was less than that for minorities generally or for Whites.

The evidence suggests that categorical programs have restructured the labor market so that certified teachers with specialized credentials, paraprofessionals, minorities generally, and Hispanics specifically have grown in numbers over the last decade.

Impact of demographic and fiscal changes

There have been dramatic changes in the student population served by public schools, as well as changes in the fiscal capacity of local districts. Not only has the

number of children attending public schools fallen in the last decade, but the number of students classified as disadvantaged for reasons of race, language, income, or physical disabilities has risen dramatically. For example, while California's public school enrollment declined by 147,000 students from 1967 to 1977, students of racial and ethnic minorities increased their numbers absolutely (an additional 439,000) and relatively (from 25 to 37 percent of the total student population).

Trends reported in the U.S. Census of 1980 suggest further increases throughout the 1980s.

The nation's Black population increased by 17 percent in the last decade. The Hispanic population increased by over 60 percent. Since certain federal and state categorical programs are targeted principally to these groups, we can expect a shift in the demand for teachers and paraprofessionals qualified to satisfy program mandates — assuming that these programs are retained.

Amidst these demographic changes, severe fiscal crises hit several cities and states during the 1970s. One result is that many districts have been unable to cushion the impact of declining enrollments by reducing class size. Since teachers' salaries and fringe benefits account for over three-fourths of the budgets of most school districts, local administrators have been forced to reallocate teachers, to reduce the number of teachers employed by districts, and to increase the number of less expensive paraprofessionals.

Initially, as the demand for teachers plummeted or shifted to new subspecialties, seniority rules were extended to include issues of job security. Because these rules shape the pattern of transfer and layoffs, they conflict with federal and state regulations that require districts to retain or hire teachers and paraprofessionals to satisfy categorical program mandates or to meet affirmative action and desegregation goals. Teachers with specialized credentials and low seniority began to compete for fewer and fewer jobs with senior teachers who lacked the same credentials. Paraprofessionals then began to compete with certified teachers, especially those with low seniority, for positions in the shrinking job market.

The labor market over the last decade has shifted new jobs not only from White to minority teachers, but also from Blacks to Hispanics.

Political consequences for teacher unions

This competition has serious political consequences for teacher unions. Certain categorical programs, such as bilingual education, have spawned cadres of teachers certified to satisfy program mandates.

To the extent that these teachers have organized politically, they represent an important force operating both within the union and outside of it. Witness the spread of local bilingual education caucuses and the rise of the National Association of Bilingual Education and its state affiliates.

As a result of these developments, it is more difficult for unions to adopt a single position on categorical mandates and on seniority-based layoffs at the bargaining table. Many of these same categorical programs have also created cadres of paraprofessionals whose well-being is likewise dependent upon continued funding. And to the extent that paraprofessionals have organized politically, they represent another force operating at the local level that can challenge the teacher union's position at the bargaining table. Their demands for job security and salary increases may conflict with similar demands made on behalf of certified teachers. Attempts to unite paraprofessionals and teachers in one union with a common contract have not been uniformly successful.

The local political situation is further exacerbated when categorical aid programs affect the composition of the total labor force, with new jobs going disproportionately to minority candidates over Whites, and among minorities to Hispanics over Blacks. Local political divisions within and outside of the union often mirror these ethnic and racial divisions, and each group presses its claims at the district, state, and federal levels.

As teacher union leaders and rank-and-file members respond to categorical mandates and a structured labor market, collective bargaining to some extent shapes the implementation of federal and state policy at the local level. At the same time, federal and state regulations influence traditional union concerns such as the recruitment, transfer, payment, and retention of personnel. Just as unions have gained access to school policy making previously reserved for school administrators, federal and state agencies have begun to demand that their interests be accommodated at the school site. But from any vantage point in the politics of American education, it is clear that teacher unions have increased their share of control over the implementation of federal and state programs, including compensatory education, bilingual education, mainstreaming of the handicapped, school desegregation, and affirmative action.

It is crucially important for policy makers to examine the responses of union leaders, other teacher interest groups, and paraprofessionals to the economic, political, legal, and organizational demands of categorical mandates. These responses are reflected in collective bargaining provisions, in the incorporation of teacher interest groups and paraprofessionals in local decision making, and in the political organization of school personnel in the newly stratified labor market.

What is needed is a better understanding

THE DILEMMA OF OVEREDUCATION

Russell W. Rumberger, OVEREDUCATION IN THE U.S. LABOR MARKET, Praeger Publishers, 521 Fifth Ave., New York, N.Y. 10175, 160 pages, $19.95 hardbound.

This book addresses an emerging problem in the U.S. labor market: lack of suitable, skilled jobs for an increasingly educated work force. The condition is frequently referred to as overeducation. Rumberger, an economist and research associate at IFG, explores several definitions of overeducation and examines its existence from several theoretical perspectives. He then measures the incidence of overeducation based on the discrepancy between the educational attainments of workers and the educational requirements of their jobs. Several findings emerge from the analysis:

- The incidence of overeducation increased substantially between 1960 and 1976.
- It will continue to increase in the future as younger, more educated workers replace older, less educated workers in the labor market.
- Overeducation exists among high school as well as college graduates.
- Overeducation is more prevalent among women and blacks than among white males.

The last section of the book reviews evidence suggesting that overeducation could adversely affect job satisfaction and productivity. Rumberger concludes with a discussion of policy implications, both for the private and public sectors. ■

of the structural incentives of local district administrators, unions, minority interest groups, and other claimants on the public purse. We should know more about the likely impacts of a variety of economic, legal, organizational, or political strategies such as regulatory versus distributive policy, or categorical versus consolidated aid. Putting all this together, we need a comprehensive perspective and reliable tools of analysis in order to provide guidance to those implementing policy. ■

PROFESSIONAL INTERESTS AND STUDENT NEEDS

Do categorical grants benefit intended target groups or do they operate instead to meet the needs of professionals upon whom the implementation of the programs depends? As the Elementary and Secondary Education Act of 1965 approaches its time for reauthorization, this question is receiving the attention of many groups. They want to know who "Wins" and who "Loses" under the categorical method of funding federal education programs.

A useful perspective is emerging from current research on federal categorical grant programs by John Chubb, an assistant professor of political science at Stanford University. He is studying patterns of political support that underlie federal grants-in-aid and contribute to fragmentation, excessive spending, and lack of accountability.

Chubb emphasizes implementation relationships between the government and administrative constituencies whose behavior the government hopes to change. He distinguishes such relationships according to interest-group initiatives and bureaucratic strategies. The political behavior of constituent and bureaucratic agencies can then be described in terms of what Chubb calls the "functional interests" represented by their respective efforts. For example, strategies of the Elementary and Secondary Divsion of the Department of Education are described by how well they represent the interests of students, parents, teachers, and administrators, as well as various minority groups. Likewise, the political efforts of these groups can be analyzed as constituent initiatives representing certain interests.

Chubb makes another important distinction when he categorizes functional interests as either *beneficiaries* or *cost-bearers*. For example, the Title I bureaucracy has economically disadvantaged children as its legally intended beneficiaries, while local education agencies play a mixed role as both cost-bearers and beneficiaries.

With this distinction, bureaucratic decision making can be described in terms of the balance among beneficiary groups and cost-bearing groups. Among the many possible relationships that might develop, three are potentially important causes of different policy outcomes:

Corporatism. A cooperative, exclusive relationship between the bureaucracy and a major beneficiary organization; this is believed to lead to a disregard for costs and the interests of other beneficiaries.

Pluralism. A fluid relationship associating many groups temporarily with the bureaucracy; this is believed to maximize policy flexibility, positive change and goal achievement.

Capture. A cooperative, exclusive relationship between a bureaucratic agency and a major cost-bearing organization; this is believed to undermine the delivery of intended benefits.

Chubb believes that the mixture of allocation (grants-in-aid) and regulation (accountability and program rules) is likely to generate relationships between constituents and the Title I bureaucracy that resemble a traditional regulatory agency, monopolized by cost-bearing interests. The following evidence is offered to support the hypothesis of a "captured" agency:

(1) Congressional oversight hearings have been dominated by educational interest groups over the past 15 years; only 7 percent of the witnesses represented client groups.

(2) Only $7,861,109 out of $174,758,335 in audit exceptions identified by the HEW audit agency had been sustained by the Office of Education as of 1977.

(3) Although the aggregate state allocation, state education agency sub-allocation, and local education agency school eligibility are all decided through a rigid formula based on poverty, local education agencies make allocations to schools based on educational need as well as poverty, and schools identify pupils to be served based on educational need. This leads to much *local* (i.e., professional) discretion in the use of funds.

(4) Only $750,000 of the $266 million in potential violations identified by HEW audit agency had ever been returned to the U.S. Office of Education (USOE) by 1978. Instead, USOE adopted a policy toward alleged violations of the supplanting regulation that they would approve final determination letters only if the state admitted supplanting activities or pleaded no contest, if the statute of limitations had reduced the original exception to zero or close to zero, or if the amounts were a smaller part of a more substantial finding based on another regulation.

(5) In 1977, Paul Hill, Chief of the Compensatory Education Division of NIE, testified that there was disagreement within USOE about the appropriate role of the federal government in monitoring Title I expenditures. Officials in the Division of Education for the Disadvantaged favored aggressive implementation of the requirements. The Office of the Associate Commissioner for Compensatory Education Programs, however, rejected many of the tests for compliance in Title I program reviews and audits. As a result, enforcement of supplementation guarantees has been declining in the past few years, leading to decreasing supervision of Title I funds.

(6) From 1971 to 1977, allegations of malfeasance in program reviews dropped from 200 to 11. The reason for the decrease is that auditors were no longer confident investigating the supplementation issue because of the lack of clear signals from USOE. USOE response to citizen complaints and its positions in legal actions brought by local citizens fail to provide consistent direction to the state and local education agencies. USOE supported the plaintiffs in one court case only after it received strong pressure from a public interest group. In another case, the absence of outside pressure allowed a complaint to languish for a year while USOE tried to define its position.

(7) From 1965 to 1979 only 12 GAO audits were conducted of Title I. Six were requested by Congress, three by specific Congressmen, two by the USOE, and one by a Congressional committee.

Questionable commitment

Congress has conducted only eight oversight hearings on Title I in fifteen years, a weak record considering the increased pressure for accountability in government. The reauthorization hearings have focused on the allocation formula and distribution of money, not on program outcomes. Only five out of 138 witnesses at oversight hearings represented direct beneficiary groups.

Nor has Title I been shaped or constrained by the judicial system, for courts have stayed away from auditing issues and local decision-making processes. In

fact, it was not until 1978 that the entitled recipients were ruled to have the authority to sue under Title I for alleged violations of the law. Following this ruling, the 1978 amendments to Title I specified that Congress intended the beneficiaries of the law to have access to federal courts if they claimed a statute or federal policy was inconsistent with Title I.

The most intensive lobbying efforts on behalf of Title I have involved funding issues, not program impacts. In spite of intense lobbying efforts by the Committee for Full Funding of Education Programs (a group of more than 70 education interest groups) and others including minority beneficiary interest groups, Title I has not grown appreciably over the years. Between 1966 and 1976, appropriations increased from $959 million to $1.9 billion dollars for the program. Appropriations averaged 36 percent of authorizations.

The number of witnesses testifying during appropriations committee hearings has not changed significantly over the years. Between 1968 and 1980, 3.3 percent of the witnesses represented direct beneficiary interests. Since 1975 only two direct beneficiary groups have testified, as compared to 17 educational groups.

In sum, Chubb's political analysis suggests that Congress and the Department of Education remain committed to the interests of national education groups. Professional education interests appear to have used their joint role as beneficiaries and cost-bearers of Title I to establish a privileged relationship with the federal government. From Chubb's perspective, Title I and other categorical programs have become entrenched through the support of professionals and have, in the process, compromised the interests of intended target groups. A block-grant approach to funding education programs seems to face formidable opposition, since professionals already control their desired pieces of the pie. ■

ADEQUACY AND EQUITY

Are They Compatible?

What is "adequate" funding for education? How do we define "equity" in school finance? How do such concepts relate to efficiency and delivery of educational services? These questions are at the heart of any examination of alternatives for funding educational services.

The notion of adequacy focuses on whether the level of sources for educational programs meets the needs of various student populations. But what is adequate? To achieve what goal?

The concept of equity focuses on relative differences in access to education among different student populations. The concern for equity causes us to inquire whether children with similar educational needs have similar access to resources and services in different communities. It also raises the question of whether differing access to education has been provided to children with varying educational needs.

To what end do we pursue the goal of equity? Are we seeking greater equality of life chances, labor market outcomes, educational outcomes, or educational resources?

Rethinking the financing of education

At present the federal government and states rely on categorical grants to fund educational programs for children with special needs. Recent statements from the White House sugget a turning away from categorical programs for achieving policy goals. But whether one relies on categorical or block grants, it will require analysis of the resources required to serve various student populations in order to establish a reasonable basis upon which to determine the level of grants to local or state agencies.

Present funding approaches are generally not based on the level of resources required to achieve particular goals or to service certain needs. Rather, they are largely determined by the results of negotiations among political constituencies. A resource-based funding approach redirects the focus of attention from political to educational needs.

Only by basing grants on service costs can government make rational decisions as to trade-offs within and among programs. And only in this way can policy makers assess the impact of alternative levels of funding on service delivery. Such a resource-based foundation for policy decisions has potential for improving the efficiency of funding alternatives as well as the effectiveness of the agencies receiving the funds.

By looking at funding in terms of the relationship between pupil needs and educational resources, policy makers can develop standards of adequacy and thereby ascertain standards of equity for serving various student populations. The implication then is that policy makers define standards of adequacy and equity through the funding mechanism. But why can't we identify more objective standards for such definition?

Are adequacy and equity objective or subjective?

It is conventional wisdom that different combinations of school resources are required to provide services for pupils with varying needs. Unfortunately, assessing the cost of these differences is not straightforward. If one could measure educational outcomes easily, and if the criterion of quality were identical for all the different populations served, then there would be no difficulty in assessing necessary cost differences between programs or among school districts. However, neither of these conditions is satisfied.

Educational quality is neither easily measured nor readily agreed upon, and it is likely to differ substantially depending on the student populations being served. We have measures of student achievement, but do they reflect what is learned in school? Which ones are most important? Who should decide? Is the definition of educability the same for different student populations? For example, studying the origins of the universe might be a goal for a regular education science program, while learning how to clothe and feed oneself might be a primary goal of programs for some handicapped students.

To address adequacy and equity and to make judgments regarding alternative funding programs, policy makers need to consider the following kinds of questions:

- What characteristics of students reflect different educational needs?
- How do we identify these characteristics among populations of students?
- How do we translate the educational needs of students into the combinations of resources — teachers, aides, specialists, materials, and supplies — that constitute the programs necessary to ameliorate particular problems?
- How do we determine variations among school districts in the prices of resources of which these programs are composed?

Resource-based funding

Clearly, funding should be based on program costs, and program costs should be based on agreed-upon standards of program definition. Funding allocations should recognize not only the different

briefly . . .

Consulting editor for this issue of *Policy Notes* and author of the lead article, "Federal Categorical Aid — Emerging Patterns of Support," is Henry M. Levin, IFG director and professor of education and economics at Stanford University.

"What Does It Mean For Teacher Unions" was written by Dennis J. Encarnation and Craig Richards, based upon research they are currently doing on the topic. Encarnation is an IFG research associate and lecturer in political science at Stanford University. Richards is an IFG research assistant and a graduate student in economics and education.

"Professional Interests And Student Needs," by Katherine Jones, a graduate student in applied policy analysis in education, reviews current research of John E. Chubb, assistant professor of political science at Stanford University.

"Adequacy And Equity — Are They Compatible?" grows out of recent research of IFG associate director and economist Jay G. Chambers, who wrote the article with the assistance of Tom Parrish, an IFG research assistant and graduate student in applied policy analysis in education.

Barbara Mendelson, an artist in News and Publications at Stanford University, drew the illustration on page one of this issue of *Policy Notes*. ■

combinations of educational resources required to meet varying pupil needs, but also the varying prices necessary to attract such resources to local school districts in order to satisfy the mandate to provide services.

The essence of a resource-based funding approach is that it requires policy makers at the federal, state, and local level to think concretely about what an adequate program should look like for different kinds of children. Such thinking results in a systematic distribution of resources according to the composition of student populations being served in local school districts. Districts serving similar combinations of pupils according to their educational needs are treated similarly, while districts serving different combinations of pupils according to need are treated in systematically different ways.

Both the similarities and differences in treatment arise from standards of adequacy and equity in the definitions of educational programs established by policy makers. An educational program is defined by specific combinations of resources, such as the number of teachers, aides, hours per week of instruction, the ranges of pupils served per instructional unit, and so forth.

The resource-based funding approach in no way guarantees that the distribution of resources to different districts or to different kinds of pupils will result in similar life chances or even similar educational outcomes. At best, similar students will be treated similarly and different students will be treated differently in the funding of programs, where the differences have been defined by educational policy makers.

As policy makers define educational programs and determine allocations of funds on the basis of these definitions, there might well be an increased awareness of the input-output relationships and cost implications of alternative patterns of resource allocation. It becomes immediately apparent in the process that educational programs serving different pupil needs cannot and should not be defined independently of one another. They also cannot be designed reasonably without considering other social priorities outside of education.

Some value judgments will have to be made about the priorities of different educational needs. Without more objective information on input-output relations in education, it will be virtually impossible to distinguish between professional judgments about what constitutes adequacy and the relative priorities placed on different educational needs.

While such a funding approach offers the potential for rational decision making, this in itself may create a political problem. Legislators and other policy actors may not want these kinds of trade-offs made apparent to "outsiders" who might decide to scrutinize their judgments.

Within a resource-based funding approach, the potential impact of the funding decision can be traced easily to the implications for service delivery to children in different districts. In the absence of more objective information on the educational effects of particular trade-offs within or among programs, the numbers remain open to widely varying interpretations by interest groups and create a potential source of difficulty for legislators considering budget allocations.

This suggests not so much that a resource-based funding approach is impractical in the political context. Much to the contrary, some policy makers may welcome this kind of framework for decision making. However, it may suggest that the stage of the budgetary process at which programs are specified must be carefully considered. Such decisions might best be made away from the legislative process and within the administrative department responsible for the provision of services.

At whatever stage this funding approach is implemented, it has the potential for improving decision making by generating more detailed information about how services are delivered to the children who need them. ■

SOME THOUGHTS ON EQUITY

The following opinion is an excerpt about categorical grants from Managers of the Millennium, a forthcoming book on the history of educational leadership by David B. Tyack and Elizabeth Hansot:

When administrators of categorical programs are paid by federal or state funds, it is only natural that they have divided loyalties: to the special program officers above them and to the district and its pupils. Such problems with the present categorical programs are products not of malevolence, but of the structural features of the programs themselves. Often the accounting systems have little to do with what actually takes place in classrooms. Regulations in education are different from those in fields where the technology is more precise. It is one thing for a clean air inspector to see whether a scrubber has been installed in a smokestack and to determine its effectiveness; it is quite another to specify the process and effects of "environmental education." The government may regulate education, but it hardly controls it.

We do not mean to imply that programs aimed at underserved groups should be abandoned in favor of general aid — or no federal assistance at all. There is convincing evidence that Title I programs have improved the schooling of poor children. The categorical programs have created political constituencies that favor more funds for educating poor and minority children, and this is desirable, for the poor rarely have enough advocates in the halls of power. The programs also have hired large numbers of minority professionals and paraprofessionals who provide minority pupils with examples of their own people who have secured middle-class jobs. But what is needed now is a refashioning of federal aid so that it provides funds earmarked for upgrading the education of underserved students while granting more autonomy to local educators — especially in individual schools — to decide with their advisory committees how best to use the additional resources in their communities.

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INSTITUTE FOR RESEARCH ON EDUCATIONAL FINANCE AND GOVERNANCE

CATEGORICAL GRANTS IN EDUCATION

Rethinking The Federal Role

By Henry M. Levin

Earlier this year the Reagan Administration announced that in 1982 it intended to combine almost 50 categorical programs in education into two block grants, one for states and the other for local education agencies. In addition, the funding for these purposes was to be cut about 25 percent. The announcement provoked dramatic responses from policy makers and interest groups, some praising and others condemning the initiative. The new Secretary of Education, Terrel Bell, was quoted in the February 13 issue of *Education Daily* as saying that "block grants are the biggest issue, especially if you define the biggest issue as the one that affects the greatest number of students and touches the broadest aspect of American education."

To understand the controversy it is important to trace the historical development of federal categorical grants in education. As the name implies, such funding is provided by the federal government to state and local education agencies to support services of a particular type or for a particular category of students. The best known categorical programs are those for compensatory education for disadvantaged children, bilingual education, education of the handicapped, vocational education, assistance in federally affected areas, and emergency aid for assisting desegregation. In 1980 these and other categorical programs amounted to about $7 billion.

Although education is constitutionally a function of state and local governments, it is widely recognized that certain national concerns will not always be satisfied at those levels. In particular, limited state and local resources as well as the relatively modest political power of the poor, handicapped, and educationally disadvantaged have meant that national goals of equity are difficult to realize without federal intervention. Just as the federal government intervened in 1954 to overturn *de jure* racial segregation in the southern and border states, it has attempted to achieve other types of equity at the state and local levels through categorical grants.

For example, impact aid for federally affected areas provides funding for local districts educating youngsters from federal installations such as military bases that do not pay taxes for local schools. Vocational education funding assists states in offering vocational training for students who will seek employment directly after completing secondary school. Title I of the Elementary and Secondary Education Act of 1965 provides compensatory education for students from low-income families, and bilingual and handicapped programs address the needs of children with limited English proficiency and handicapped youngsters respectively. When each of these federal programs was enacted, state and local education agencies were viewed as providing inadequate levels of services for such purposes, and the federal government intervened to improve equity and educational opportunities.

The age of expansion

Until 1965 and the onset of a major federal antipoverty thrust, both the level of federal categorical grants and the overall federal fiscal role in elementary and secondary education were modest. As late as 1964 federal expenditures on elementary-secondary schools were about $667 million or only 3 percent of total elementary-secondary expenditures for that year. With the passage of the Elementary and Secondary Education Act of 1965, they tripled to over $2 billion in fiscal year 1966 and more than 7 percent of all elementary-secondary support.

Most of the increase was reflected in Title I of that Act, which provided funds for compensatory education for the economically disadvantaged. But, over the next decade, legislation for bilingual and handicapped students, in conjunction with rising appropriations for vocational education and aid to federally impacted areas, had increased total federal support to over $7 billion in 1980, of which Title I accounted for almost half.

In summary, the expansion of federal categorical grants programs has evolved largely since 1965. The vast bulk of support under this approach has been allocated to improve educational equity for economically disadvantaged, bilingual, and handicapped students as well as those in vocational schools and in schools undergoing desegregation. In addition, a substantial amount — almost $800 milion in 1979 — was allocated to school assistance in federally impacted areas.

Complaints and contradictions

Along with the success in funding and implementation of these programs has come a rising crescendo of complaints. First, national evaluations of some of the programs such as Title I and bilingual education have suggested that there is little systematic evidence that such funding is closing the gap in achievement scores between disadvantaged and bilingual students on the one hand and their nondisadvantaged and native English-speaking counterparts on the other. Thus, according to one important measure of performance, the programs do not appear to be successful on any systematic basis.

A second concern is the evidence that rather than augmenting the existing fund-

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ing for such students, some federal funds are being used as substitutes for state and local funding. Further, there is considerable evidence that many states and local districts are in violation of the various guidelines on the use of parent advisory groups and other provisions of the legislation.

A third concern is expressed by school administrators who say that there are too many regulations and too much paperwork required to receive and use the grants. Numerous reports and evaluations must be prepared and submitted and a variety of procedures must be met in the implementation of the programs. For example, under P.L. 94-142 a detailed individual educational program (IEP) must be devised for each handicapped child to assure that he or she is receiving an appropriate education in the least restrictive environment. Yet the federal government has provided only about 12 percent of the expenditures satisfying this mandate.

Each categorical grant program has its own extensive regulations, guidelines, and procedures. Not only does this complicate the ability of schools to comply with regulations, but there is duplication of administration and pupil services to meet such requirements. Even such simple matters as reporting dates and definition of student classifications differ from program to program. The potential for wasted resources is great.

Although there is also substantial evidence of success in educating bilingual, disadvantaged and handicapped students under these categorical programs, the controversy over troublesome aspects of the programs has become more highly visible in recent years. It is the view of those who advocate consolidating existing categorical programs into block grants to state and local education agencies that the triumphs of the categorical grants funding can be retained while eliminating most of the problems associated with this approach.

Specifically, the Stockman proposal — as it is called after David Stockman, the Director of the Office of Management and Budget (OMB), who is the principal architect — would provide a block grant to local education agencies for funding 12 programs that are presently designed to address the educational needs of the disadvantaged, handicapped, students with limited English proficiency, children in school districts undergoing desegregation, and adult illiteracy. The Administration has indicated its intention to exclude bilingual education from the block grants for the 1982 fiscal year and to fund it separately.

Another 35 separate and smaller programs would be incorporated under block grants to the states to provide direct educational services for handicapped, neglected and delinquent children, improve staffing and services of state education agencies, and support improved school services. Of these, 19 represent "mini-categorical programs" such as metric education, consumer education, and law-related education.

Both states and local education agencies would be given block grants according to formulas based on the number of eligible students in their jurisdictions as well as other pertinent criteria. Under block grants, each of the recipient governments will decide with broad latitude how to allocate the funds to provide educational services. There will be no requirements that federal funds supplement rather than supplant local funding, and almost all federal rules would be removed. As one high official of the Department of Education was quoted in the *New York Times*, "We'll require states and local education agencies to have a plan for how they will use the money. But we can't take the money away just because they don't do what they said."

Under block grants, each of the recipient governments will decide with broad latitude how to allocate the funds to provide educational services.

Reduced funding levels

In addition to consolidating the separate categorical programs into block grants and removing most of the present regulations, the Administration's proposals would reduce appropriations by 25 percent for the 1982 fiscal year. The Department of Education estimated that the costs of administration of the existing grants programs were as much as 13 percent of appropriations, and this amount would be saved under the new plan. Thus, the Administration has asserted that the *real* cut might be as little as 12 percent, an amount considerably smaller than that faced by other social programs.

Before reviewing the pros and cons of consolidation, it is important to point out the major source of tension. Federal categorical grants were established because state and local education agencies were not providing appropriate services for students with special educational needs. By providing grants that could be used only for certain categories of students and services, an attempt was made to satisfy the national interest in education while maintaining schools as a state and local function. The emphasis was on making certain that specific educational services of federal concern were being provided by tying the grants to regulations for spending the funds.

Under a block grant approach, state and local education agencies would decide themselves how to use the funds. There would no longer be an assurance that the national interest in equity would be served. The fact that in the past many state and local education agencies attached no priority or a low priority to the specified categorical services means that there may be a reluctance to use the block grants for addressing the original concerns of the categorical programs.

This is likely to be particularly true as the schools face budget stringencies caused by inflation, loss of revenues from declining enrollment, and state fiscal limitation measures such as Proposition 13 in California and Proposition 2½ in Massachusetts.

Advantages of block grants

The most important advantages of the block grant approach are that the administrative burdens and associated costs are reduced, and decisions are made closer to those who are affected by them. The large number of regulations accompanying each of the present categorical grants has created large bureaucracies and high administrative costs at federal, state, and local levels. Delivering block funding to states and local school districts alleviates a substantial amount of reporting and monitoring. Less duplication of administrative personnel and procedures for each separate program means greater administrative simplicity and reduced administrative costs.

A second argument in favor of categorical grant consolidation is that state and local governments will be able to use the funds as they see fit within the broad guidelines of the grants. It is likely that different school districts and states face different needs in both the allocation of resources among special needs and in implementing the details of such programs.

By permitting this discretion, it can be asserted that the program offerings will be more sensitive to the specific circumstances faced by educational agencies than when much of the detail for utilization of funds is set out at the federal level.

The argument against categorical grant consolidation into block grants is primarily based upon the view that they defeat

the purpose of setting out federal aid for specific categories of educational services. The reason that categorical programs were established in the first place was because of the insufficient priority given by states and local education agencies to the needs of the disadvantaged, handicapped, and so on.

Providing block grants to the schools without requiring that these services be provided is tantamount to reneging on commitments to the populations in need. At best it leaves the outcome up to the vagaries of the political process at the state and local levels. Since many of the target groups represent only small minorities with little political power at the local level, it is feared that the block grants will simply be used to fund general educational programs or replace other sources of school support.

Particularly in financially pressing times as these, public officials will be tempted to use federal block grants to replace state and local funding for education. Although there will be some reduction in the administrative costs of handling federal funds, a much larger reduction is planned in the total allocations of the block grants. In contrast to the Administration's suggestion that 13 percent of categorical grants are allocated to administrative costs, a recent General Accounting Office study found the figure averaged only four percent. And that small amount might rise under the block grant approach as declines in administrative cost at the state level are offset by increased administrative costs at the local level.

Federal categorical grants were established because state and local education agencies were not providing appropriate services for students with special educational needs.

Most significantly, argue the detractors, the main burden of the changes will be felt by the poor, minorities, and the handicapped. Since most of the existing categorical support is targeted to these groups, they have the most to lose from consolidation. This would result from several features of the block grants:

- First, the overall reduction in funding would have this effect.
- Second, the dropping of the "maintenance of effort" provisions that require state and local education agencies to use categorical funds to augment, rather than to supplant, state and local support for these educational services would undermine the provision.
- Third, the lack of accountability on how the funds would be spent at the local level would not augur well for groups that lack political power and that must compete with more powerful constituencies in times of inflation and budgetary pressures at state and local levels.
- Finally, the Administration's proposal would require local educational agencies to share such funds with private schools, further diluting their utilization in the public schools.

In summary, the arguments in favor of consolidation of categorical grants revolve around reducing administrative costs of duplication as well as eliminating many of the cumbersome regulations and placing greater emphasis on state and local decisions. The arguments against such consolidation are that the very reason that categorical grants are needed is to assure that they are used for educational services that are in the federal interest.

Local interests have tended to emphasize other concerns, including tax relief and general educational services. Thus, the block grants would tend to benefit state and local taxpayers by supplanting state and local expenditure requirements. Further, they would assist the middle and upper-middle class by shifting federal funds into general educational support and assistance for private schools. The losers would be the poor, minorities, and the handicapped.

Other options

Given the arguments for and against the block grant approach to consolidation, it is possible to suggest other options that may reduce the present problems associated with categorical grants programs without relinquishing the benefits of those programs. The foremost alternative would be to move towards administrative consolidation of categorical grants while streamlining regulations to eliminate the most onerous, ineffectual, and cumbersome of the present administrative requirements.

THE REAGAN ADMINISTRATION ON GRANT CONSOLIDATION

Following are the Administration's comments on proposed consolidation, taken from budget documents and published in *Education Times*:

One lesson is clear from the past: the only real losers in converting categorical grants to a block grant are the bureaucratic middlemen — the grantsmen — who use up funds for the needy.

The Department of Education currently administers over 45 narrow categorical grant programs that provide resources to state and local governments to support a wide variety of educational objectives.

The President is proposing to collapse these programs into two programs — one block grant to the states and the other to local educational agencies (LEAs).

These block grants will shift control over education policy away from the federal government and back to state and local authorities — where it constitutionally and historically belongs.

The federal role is to supply necessary resources, not to specify in excruciating detail what must be done with these resources.

Under these block grants, there will be no requirements for matching funds and no demands that federal funds "supplement rather than supplant" local funding.

There will be no endless byzantine squabbles over myriad accounting regulations that aid bureaucrats, not children.

Approximately 13% of the federal funds in programs to be consolidated are now used for administrative expenses by state and local agencies. This overhead will be drastically reduced under the consolidation proposal.

The LEA block grant includes programs that are presently for students judged to have special educational needs: the economically disadvantaged, the physically or mentally handicapped, children with limited proficiency in English, children in school districts undergoing racial desegregation, and illiterate adults.

The grant to the states combines programs that (a) provide direct educational services for handicapped, neglected, and delinquent children; (b) improve the staffing and services of the state educational agencies; and (c) support improved school services in a variety of ways, including assistance to school libraries, curriculum development, and technical assistance.

Because many of these programs overlap services to disadvantaged students, the block grant system will allow localities to eliminate conflicting and duplicative regulations and reporting requirements.

Budget authority for the block grants in 1982 will be 80% of the sum of the combined programs in 1981.

The Administration anticipates that the reduced funding levels will be offset by more efficient management generating from the increased latitude given to state and local governments to tailor education programs to suit the particular needs of children in their districts.

This would represent a major reform of categorical grants programs that would reduce administrative costs and burdens while maintaining the benefits of categorical separability and accountability at the school level. A single administrative and reporting mechanism would be created for all categorical grants programs at federal, state, and local levels. Each year there would be a single application for funding from each school district and state and a single accountability report or evaluation that would encompass all categorical grants programs for any single entity. A unified parent or citizen advisory board would provide guidance for all programs. Finally, definitions of student classifications and expenditure categories and other report information would be standardized across programs.

This approach would reduce duplication of administration effort and its associated costs, while encouraging joint planning of categorical programs. It would also provide a more comprehensive approach to educational services for children with multiple needs and eligibility under the different programs. The administrative consolidation would be accompanied by a streamlining of existing regulations to remove or modify those that are highly cumbersome, unduly restrictive, and ineffectual. The focus would be on target groups receiving the benefits of the services, and maintenance of the state and local efforts in serving such populations. Thus, administrative consolidation and streamlining of regulations suggest an alternative that might reduce administrative costs and rigidities, while safeguarding the original intent of the categorical programs and the federal interest in such programs.

An alternative approach would be to move in the direction of matching grants for each of the designated categories of services. Under a matching grant approach, the federal government would provide a certain proportion of state and local expenditures for specified educational needs up to some maximum. States and local education agencies would need only to provide an accounting of expenditures on eligible students and services, and they would be able to know in advance the assistance that they would receive from the federal government.

In essence, the federal government would provide an incentive for state and local education agencies to provide the selected educational services by reducing the costs of such provision. For example, if the federal government agreed to pay half of the cost of educating handicapped children, there would be a strong incentive to develop appropriate programs for such youngsters. Of course, matching rates could vary according to the nature of the educational service or category.

Matching grant programs have the advantage that payment is only made to local and state education agencies in proportion to the amount of categorical services that are provided. A definition of which types of services are eligible, the matching rates, and the appropriate accounting system for reporting expenditures are essentially all that is required from a regulatory and administrative perspective. Such an approach simplifies the grant mechanism, reporting, and decision making at all levels of government while maintaining accountability with respect to provision of the appropriate services and maintenance of effort.

Summary

There are significant strengths with the present system of federal categorical grants as well as formidable problems in implementation. We need to devise a new approach that will capitalize on the strengths while alleviating the problems. The unavoidable obstacle is that the problems of the present system of categorical grants are inextricably linked with their substantial benefits in meeting national goals.

In such a situation, the major surgery implied in block grants may also destroy most of the benefits. What is called for is an artful strategy that will at once reduce the most onerous features while protecting the crucial social value of categorical grant programs. Two possibilities — administrative consolidation with streamlining of regulations or the use of categorical matching grants — represent intriguing alternatives that might meet this delicate challenge.

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